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SACHI A. HAMAI
Chief Executive Officer

September 26, 2017

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Sachi A. Hamai
Chief Executive Officer

AFFORDABLE HOUSING BUDGET (ITEM NO. 22, AGENDA OF OCTOBER 27, 2015)

Background

On October 27, 2015, the Board of Supervisors (Board) adopted a Motion (Motion) by Supervisors Kuehl and Ridley-Thomas that created a new Affordable Housing Programs budget unit (Budget Unit) within the General Fund, and established an Affordable Housing Coordinating Committee (Coordinating Committee) to advise the Board on matters related to affordable housing. The Motion further directed the Chief Executive Officer (CEO) to identify $20 million in funding for the Budget Unit in Fiscal Year (FY) 2016-17 and to increase this amount by $20 million per year in each of the subsequent four fiscal years, to reach an annual allocation of $100 million per year by FY 2020-21. The CEO was instructed to report back to the Board in each subsequent Supplemental Budget phase with recommendations for the use and funding of the Budget Unit.

Funding Plan for the Affordable Housing Budget Unit

The CEO has identified $40 million of funding in FY 2017-18 to support affordable housing. The initial $20 million of funding was approved as part of the 2017-18 Recommended Budget, with another $2.5 million added in connection with the Final Changes budget on June 26, 2017. Of this $22.5 million, $10 million consisted of ongoing net County cost (NCC) and $12.5 million resulted from one-time funds. With the Supplemental Budget, the CEO is providing an additional $17.5 million in funding, which is divided between $5 million of ongoing NCC and $12.5 million of one-time funds. The $25 million of combined one-time funding used in FY 2017-18 is derived exclusively from redevelopment dissolution and relates to a combination of asset sales, pass-through deferral repayments, and low and moderate income housing (LMIH) funds.

The long-term funding plan for the Budget Unit is being developed by the CEO in accordance with the Board's objective of delivering $60 million in FY 2018-19, $80 million in FY 2019-20, and $100 million in FY 2020-21, and each year thereafter. Consistent with the Motion, the CEO's funding plan will take into consideration the use of redevelopment residual and one-time dissolution funds, as well as the potential leveraging of Mental Health Services Act (MHSA) funding. The uncertainty that exists with respect to future funding sources will require the CEO to remain flexible in its use of one-time monies, ongoing NCC, and available fund balance. The expectation with respect to future fiscal years is that the $100 million will come from a combination of the following ongoing and one-time sources:

- Ongoing NCC, to the extent available;
- One-time NCC, to the extent additional fund balance is available;
- Pass-through deferral repayments from the former redevelopment agencies;
- Asset sales of the former redevelopment agencies;
- Outstanding redevelopment LMIH funds, which will terminate in FY 2020-21;
- External funding sources such as Affordable Housing and Sustainable Communities grants, philanthropic contributions, and private matching funds; and
- County land contributions, which will equate the value of the property with a cash contribution to the Budget Unit.

In considering ongoing NCC as a contributor to the Budget Unit, one potential component of this funding source will be the use of residual property tax proceeds from redevelopment dissolution. As prescribed by the Motion, the CEO will continue to examine this funding option in future budget years.

Recommended Funding Allocation for Fiscal Year 2017-18

The Motion directed that a minimum of 75 percent of the Affordable Housing budget unit be dedicated for the production of new, or preservation of existing, affordable housing for very and extremely low-income or homeless households, including workforce housing and permanent supportive housing. The Motion further directed that the remaining funds be reserved to support rental assistance, rapid re-housing, shared housing, move-in assistance, and other related services. The Executive Committee, established as a result of the Motion, was given responsibility for recommending, through the CEO, a funding allocation for the Budget Unit.

In its June 26, 2017 memorandum, supporting the 2017-18 Final Changes budget, the CEO recommended that $22.5 million of the Budget Unit be allocated to the Community Development Commission (CDC) for use in their Notice of Funding Availability (NOFA) process to support the development of affordable housing. Based on recommendations from the Executive Committee, $20 million of this $22.5 million was to be used specifically in support of permanent supportive housing for special needs populations identified in the NOFA released on September 12, 2017 (Fall 2017 NOFA). The remaining $2.5 million was also to be provided to the CDC for its NOFA process, but no specific housing type was identified prior to the Final Changes budget.

On August 31, 2017, the Coordinating Committee, and its Executive Committee, met and reviewed options for spending the aforementioned $2.5 million, and the additional $17.5 million that is being added to the Budget Unit as part of the Supplemental budget. During this meeting, the Executive Committee supported a proposal that the $20 million be provided to the CDC for use in its Spring 2018 NOFA. Further, the Executive Committee reached consensus that the population to be served by the Spring 2018 NOFA would include both special needs populations and tenants with incomes below 50 percent of the Area Median Income (AMI); but only if the proposed development includes a special needs or permanent supportive housing element. Development projects that do not include any permanent supportive housing will not be eligible for NOFA awards through the CDC.

The possibility of awarding NOFA funding for housing units that support very low income (30-50 percent AMI), extremely low income (15-30 percent AMI), and deeply low income (0-15 percent AMI) populations will require the County to develop a shallow project-based operating subsidy for non-special needs households. The use of an operating subsidy to support affordable housing was one of the recommendations in the first Affordable Housing Outcomes Report (Outcomes Report) delivered to the Board on May 5, 2017. The amount of the operating subsidy to be used in the Spring 2018 NOFA will be determined on a per unit basis following a review of the funding needs for different income levels. The CDC will be responsible for preparing the final recommendation for an operating subsidy amount and will present its findings to both the Coordinating Committee and Executive Committee. The amount of the operating subsidy will be established prior to the release of the Spring 2018 NOFA.

In direct relation to the $20 million that is to be provided in support of the Spring 2018 NOFA, the Executive Committee also discussed the possibility that a portion of this $20 million be reserved on a contingent basis should there arise a need to use those funds in support of the County's Homeless Initiative. Specifically, the Executive Committee considered keeping $5 million of $20 million in a contingent reserve should the Homeless Initiative experience a funding shortfall in relation to Strategy B3 (Partner with Cities to Expand Rapid Re-Housing), or Strategy B4 (Facilitate Utilization of Federal Housing Subsidies). Since the time of the Coordinating Committee meeting on August 31, 2017, the Homeless Initiative has identified other means to address the potential funding needs in Strategies B3 and B4. The CEO therefore recommends against establishing a separate contingency and will transfer the entire $20 million to the CDC for use in the Spring 2018 NOFA.

Administration of the Affordable Housing Budget Unit

The Motion provided that up to 8 percent of the Budget Unit be allocated for County and CDC administrative expenses. Given the recommendation to allocate the entire $40 million of FY 2017-18 funding for the CDC's NOFA process, the CEO proposes that this 8 percent, or $3.2 million, be used by the CDC to pay for the administrative expense associated with managing the Fall 2017 NOFA, and the Spring 2018 NOFA.

The strategic importance of affordable housing, and the continued growth of the Budget Unit, has led the CEO to devote considerable resources towards managing this program. To satisfactorily maintain these efforts, the CEO now recommends that a fixed percentage of the Budget Unit be allocated in support of this Department's role in affordable housing. Specific needs include not only staffing dedicated to affordable housing, but also consultant services related to the annual Outcomes Report, technical assistance for the Affordable Housing and Sustainable Communities grant program, affordable housing preservation strategies, tenant outreach and assistance, and site analysis to identify future opportunities for affordable housing development. The CEO estimates that a 2 percent allocation from the Budget Unit will be sufficient to fund each of these efforts on a going-forward basis. Further, should the CEO consider forming a new unit dedicated specifically to affordable housing, this 2 percent allocation will be more than adequate to fund both the new unit and any necessary consultant services. The 2 percent allocation shall be additive to the 8 percent provided for in the motion.

Future Role of the Coordinating Committee and Executive Committee

The Coordinating Committee established by the Motion included representatives from each of the following entities: CEO, CDC, Housing Authority of the County of

Los Angeles (HACOLA), Departments of Mental Health (DMH), Health Services (DHS), Public Health (DPH), Regional Planning (DRP), Public Social Services, Children and Family Services, Community and Senior Services, Sheriff, Probation, and the Los Angeles Homeless Services Authority (LAHSA). During the most recent 12-month period, the Coordinating Committee met on five different occasions to discuss matters related to the County budget, the Outcomes Report, and various strategies to support affordable housing production in Los Angeles County.

In consideration of its role in administering the Coordinating Committee, the CEO has identified several opportunities to further enhance this committee's contributions to affordable housing production. First, the CEO recommends that the Coordinating Committee function more as a "workgroup", and commit itself to developing new and creative solutions to the affordable housing crisis in Los Angeles County. The Coordinating Committee would no longer need to play an active role in either budget decisions or the production of the Outcomes Report, and can instead be briefed on these matters as part of its "workgroup" functionality. Second, the Coordinating Committee can reduce the number of represented County Departments, and no longer needs to have a separate Executive Committee. The members of the Coordinating Committee would include CEO, CDC, HACOLA, DMH, DHS, DPH, DRP, and LAHSA, as well as any representatives specifically identified by the Board. Finally, the CEO recommends that the Coordinating Committee establish a regular meeting schedule that will foster increased participation by the community and public stakeholders. Meetings should no longer be scheduled on an ad hoc basis as determined by the County budget process or the production of the Outcomes Report.

Future Allocations from the Affordable Housing Budget Unit

In FY 2016-17 and 2017-18, the Budget Unit has thus far been used exclusively for purposes related to the CDC's NOFA process and housing strategies associated with the Homeless Initiative. Going forward, the CEO is committed to identifying other potential uses that would have an equal or greater impact on affordable housing in Los Angeles County. Specific strategies that have been discussed with the Coordinating Committee include the following: 1) creation of a housing acquisition fund; 2) investment in affordable housing preservation; 3) increased competitiveness for State and federal funding; 4) geographic targeting of affordable housing investment; 5) better leveraging of 4 percent low-income housing tax credits; and 6) financial support for projects that do not rely on either 4 percent or 9 percent low-income housing tax credits. The CEO anticipates funding one or more of the above strategies in the future, while still increasing its annual commitment to programs such as the CDC's NOFA, and potentially the Homeless Initiative.

If you have any questions regarding this report, please contact Doug Baron of this Office at (213) 974-8355, or dbaron@ceo.lacounty.gov.

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